

Germany's Minimum Wage Needs Independent Evaluation

The German governing coalition's bold move to introduce a statutory minimum wage at an extraordinarily high initial level has raised quite a few eyebrows around the world. Minimum wages are certainly a global trend, implemented by many OECD countries. Nonetheless, there is wide agreement among economists that the German plan is a risky experiment with potentially vast consequences that are hard to predict. This became apparent during a recently held international IZA expert conference in Berlin, which generated a lot of public interest.

Other countries have started out at a much lower level. The U.S. federal minimum wage, in effect for over 75 years, is still comparatively low today. In the UK, the Low Pay Commission has used great caution in adjusting the minimum wage step by step since it was introduced in 1999. While no more than three percent of employees are affected by the minimum wages in most countries, an estimated 15 percent of German workers currently have earnings at or below the proposed minimum wage level of 8.50 euros. This share is even larger in the east, where average wages are lower, as is the cost of living.

The plethora of available economic studies on the minimum wage suggest that Germany will likely experience job losses. At the same time, the distributional effects of the policy remain unclear. This also corresponds with findings from the articles on minimum wage effects that were written for the IZA World of Labor (see pages 1-4 in this issue).

In the most recent revision of the minimum wage bill, the German government has relaxed some of the rigor contained in the first draft prepared by the labor ministry. While the proposed wage floor remains at 8.50 euros, exemptions apply to long-term unemployed during the first six months of re-employment, untrained workers

under 18 years of age, and interns who are in education or training. The coalition is planning to pass the bill before the summer break, so that the statutory minimum wage would enter into effect on January 1, 2015. Interim wage agreements will apply to certain sectors until the end of 2016.

In response to massive pressure from the scientific community, the German government has amended the bill to include a paragraph that requires an impact evaluation of the minimum wage in 2020. The minimum wage commission, which is yet to be installed, will also receive a budget to spend on evaluation research.

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Considering that the first draft of the bill had no evaluation element whatsoever, this is certainly a step in the right direction. However, the research funds must be substantial and allocated to independent research in a competitive procedure. Data collection must start now to capture the anticipatory effects of the minimum wage. Given the enormous scope of this policy intervention, parallel research should be permitted to arrive at solid results.

Improvements are also needed regarding the setup of the minimum wage commission. Based on the example of the British Low Pay Commission, it should be an independent body. Scientists should have no voting right, as this would make them political players, thus compromising their independence as advisors. Instead, the commission should be required to seek scholarly expertise on a regular basis and procure independent research. This is the only way to provide the people with the transparency required for democratic voting decisions.




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